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SUBJECT: THE TUG OF WAR OVER NEW POWER PLANTS IN LATVIA

REF: RIGA 00110

Classified By: Ambassador Charles W. Larson for Reason 1.4(d).

¶1. (SBU) Summary. The debate over future power plants in Latvia is rapidly heating up. As electricity demand grows and the 2009 decommissioning of Ignalina nuclear power plant in Lithuania approaches, the GOL is weighing its options. Among them are building new power plants and/or linking Latvia's energy grid with Sweden. There are major foreign policy and energy security implications attached to what type of plants are built (as well as local business interests), and a political divide has emerged over what type of fuel should be used -- natural gas or coal. Building two additional natural gas plants would significantly increase Latvia's energy dependence on Russia, but it is supported by Latvian oligarch Andris Skele. This option has lower start up costs and a shorter timeline. A coal-fired plant, on the other hand, would lessen Latvia's energy dependence and increase energy source diversification. It would, however, likely put Latvia over EU-mandated CO2 emission caps. American companies have expressed an interest in bidding on a coal plant. End Summary.

LOOMING ENERGY SHORTFALL

¶2. (SBU) Post discussed future prospects in the energy sector with the GOL on several instances, including with Economics Minister, Kaspars Gerhards. According to our contacts, the GOL projects an energy capacity deficit in the near-to-medium term of 200MW-700MW from 2009-2016 (deficit rising over time). This is mostly due to the nuclear power plant being taken off line in Ignalina, Lithuania, in 2009 (reftel)*-plus the rapid growth of the Latvian economy. According to our contacts, the government foresees the need to develop several projects in Latvia. Due to technical constraints, the first plant will likely be gas-powered. Such a gas plant would likely be built in the Riga region, taking advantage of existing infrastructure.

GAS OR COAL FOR PLANT NUMBER TWO?

¶3. (SBU) However, in the medium-term, one new plant will likely not be enough to meet growing electricity demand. Minister Gerhards is pushing for a coal-fired plant for the second facility, basing his choice on the relatively safe and diverse supply of coal. The coal-fired plant would be combined with biomass technology (10 percent share of production) to meet EU regulations on renewables; the timeline for this plant is medium-term (projected completion of 2016). This plant, too, would be 350-400MW in size. It would likely be built on Latvia's west coast, at either Liepaja or Ventspils. (Note: American firm AES has expressed interest in this project.) Coal, however, brings up numerous environmental issues, such as CO2 emissions and the disposal

of byproducts. A coal plant would also require the GOL to purchase large numbers of CO2 permits to comply with EU emissions regulations and quotas.

¶4. (C) The Chair of Latvia's largest energy supply company Latvijas Gaze, Adrians Davis, is pushing for Latvia to build only gas-fired plants--claiming that gas plants would be cheaper and faster to build, and less harmful to the environment. However, Latvijas Gaze is co-owned by Gazprom and E.ON., and since the primary supplier of natural gas to Latvia is Gazprom, building two natural gas-fired plants would only increase Latvia's energy dependence on Russia. Proponents of natural gas include members of the People's Party (TP), especially Latvian oligarch Andris Skele and former Prime Minister Aigars Kalvitis. Another argument cited in favor of natural gas is that Latvia has one of the largest underground natural gas storage facilities in Europe, which could provide fuel to the plant for several months even if the supply from Russia is cut off. TP's support for natural gas, however, may be linked to business interests. Skele recently revealed he has been involved in discussions regarding building a liquefied natural gas terminal in Latvia--which could then supply gas to any new plants. Other TP members have been lobbying for natural gas as well.

¶5. (U) On March 11 the Cabinet decided to move forward with a solid fuel power plant (coal) and tasked the Ministry of Economics to begin groundwork research. However, Finance Minister and TP member Atis Slakteris made a request to the Cabinet to change the wording of the decision, directing the Economics Ministry to go back to determining the feasibility of the coal project. These changes were approved by the Cabinet on March 18th; in effect, they reduced the government's support for a coal-fired plant and indirectly

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increased backing for natural gas.

¶6. (U) The debate over what types of power plants to build has broken out into public, with commentary and coverage splashed across the front pages of Latvia's leading dailies. One of the most vocal opponents to more natural gas plants is political party New Era (JL)--arguing that the move would compromise national security. JL drafted a bill mandating that the GOL immediately begin preliminary work on a coal-biomass power plant and called an extraordinary parliamentary session on April 9th to put the bill to a vote; the bill was rejected in a 35 to 47 vote.

¶7. (C) Comment: The medium-term energy shortfall that is forcing the GOL to consider building more than one power plants was not anticipated. The GOL assumed that Ignalina would be rebuilt by 2015 or a bit later; however, as the drive to rebuild Ignalina has gotten bogged down (reftel), the GOL has been forced to focus on other sources of power earlier than anticipated. What types of energy plants are eventually built have real foreign policy consequences for Latvia. Latvia's electricity and heating production are already heavily dependent on Russian gas. The projected energy shortage is approaching rapidly, and at this point the first new plant built will likely be gas fired: it will be quicker and cheaper to build, and Latvia has experience with this type of power generation.

¶8. (C) Comment continued: For the second plant, there are legitimate arguments against a coal-fired plant. The GOL is already struggling with how to comply with CO2 emissions quotas coming from Brussels; a gas plant would produce fewer emissions and not exacerbate the problem. However, were Latvia to build two new gas plants, and not build any other significant new plants from different fuel sources and technologies, the country would only deepen its energy dependence on Russia. That the GOL is even considering such a move speaks to efforts by Skele and others to focus Latvia's economic relations toward the east for their personal benefit.

LARSON